

Telecom

BUY: 12M TP @ 1.177

Valuation Summary (TTM)

Price (RO)	1.015
PER TTM (x)	32.8
P/Book (x)	1.2
P/Sales (x)	0.3
EV/Sales (x)	1.7
EV/EBITDA (x)	2.5
Dividend Yield (%)	5.4
Free Float (%)	36%
Shares O/S (mn)	750
YTD Return (%)	10%
Beta	0.8

(mn)	OMR	USD
Market Cap	761	1,977
Enterprise Value	4,908	12,747

Price performance (%)	1M	3M	12M
Omantel	3%	3%	11%
MSX 30 Index	0%	2%	3%
Services Index	-1%	-3%	-1%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	479	401	416
Avg Daily Volume (,000)	416	406	420

52 week	High	Low	CTL*
Price (RO)	1.130	0.836	21.4

* CTL is % change in CMP to 52wk low

Major shareholders

United International	51.0%
PASI	7.4%
OIA	6.0%
Others	35.6%

Other details

Exchange	MSX
Sector	Telecommunications
Index weight (%)	10.13%

Key ratios	2020	2021	2022
EPS (RO)	0.089	0.089	0.121
BVPS (RO)	0.768	0.772	0.847
DPS (RO)	0.055	0.055	0.060
Payout ratio (%)	62%	62%	50%

Omantel (OTEL)

Omantel reported consolidated revenue for 2Q23 at RO 705mn marginally higher than our estimate by 2.4% and higher by 6.9% on a YoY basis. During the 1H23 the revenue was reported at RO 1.4bn which was an increase of 11.1% compared to the same period the previous year. Zain group contribution to the topline was RO 1.15bn during the period. On the domestic side 2Q23 revenue was flattish at RO 142mn compared to the previous year, while for the 1H23 it grew by 10.3%. Revenue growth for the 1H23 came on the back of growth in subscriber base which was higher by 3.3% for Zain and 2.9% for Omantel and on a YoY basis. Overall subscriber base for the group stood at 56.7mn in 1H23 compared to 54.8mn in 1H22 a growth of 3.5% (domestic subs at 3.3mn). At the consolidated level EBITDA for 1H23 increased by 4.93% to RO 511mn, while EBITDA margins declined by 2.1% to 35.5% which was the lowest in several quarters. Domestic EBITDA declined by 11.7% with margins falling significantly from 33.4% in 1H22 to 26.7% in 1H23 due to higher operational costs, leasing expenses, rising bad debts and provisions on postpaid segment and higher contribution of the low margin transit voice business. Consolidated net profit for 2Q23 was reported at RO 75mn a growth of 13.4%. Domestic net profit for 2Q23 was at RO 17.3mn, 17% below our estimate of RO 20.8mn and higher by 7.4% YoY. We estimate the full year consolidated revenue for 2023 at RO 2.8bn, while we are more conservative on the net profit at RO 250mn on the back of lower margins witnessed during this quarter. Interim dividend of 5bz/share has cut-off date 31 August. We maintain our target of RO 1.177/Share on account of higher profit contribution from Zain and continue to retain the BUY recommendation.

Low margin business leads revenue growth: Omantel's domestic revenue growth of 10.3% in 1H23 has predominantly come from the low margin wholesale business and handset sales. While wholesale business contributed to 31% of the topline and grew by 16%, handset sales contributed to 10.5% of revenue and grew by 60%. Core mobile revenue witnessed subdued growth of 3.3% during the 1H23. This has resulted in higher cost of sales during the period by 21.8% translating into pressure on margins.

Higher opex costs to continue: The change in structure from owning towers to leasing them resulted in higher leasing expenses. Total lease liabilities increased from RO 71 Mn in 1H22 to RO 121Mn in 1H23. This would however be offset partially by the lower finance cost (which decreased by RO 5mn during the period). Additionally, rising postpaid connections have resulted in an increase in delinquencies on receivables. The management has made an impairment provision on these receivables to the tune of about 4% of the postpaid revenue. As the emphasis on postpaid increases, we should expect a parallel rise in these provisions. Overall operating expenses increased by 21% during the 1H23 and we believe this is a trend that will continue for a few more quarters.

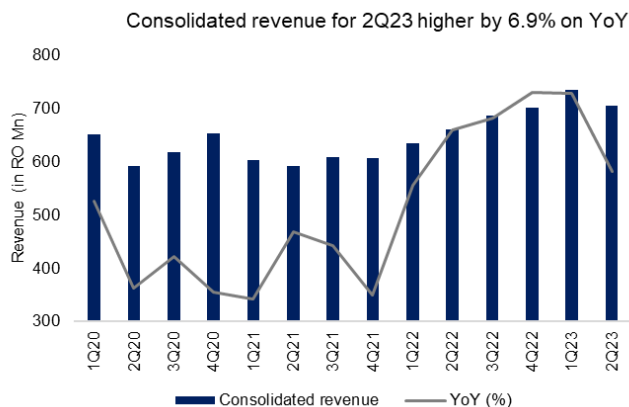


Postpaid subscribers rose significantly, but with a caveat: Omantel witnessed domestic postpaid connections increase by 28.7% to the highest level ever at 986k. While this is a commendable rise in postpaid connections especially considering the increasing competition in the segment, it is pertinent to note that a significant amount of these connections were machine to machine which has negligible ARPU compared to the regular connections. Hence this increase in postpaid subscribers has translated into lower ARPUs during the quarter. Postpaid ARPU was reported at RO 12.9/month in 2Q23 compared to RO 14.9/ month 2Q22 and RO 17.9/month in 1Q23. We believe the market is getting saturated and telecom operators will find it difficult to add new subscribers. Shifting prepaid to postpaid is leading to delinquencies and hence there will be a tapering of growth going forward. We have seen similar trends in Ooredoo and most likely take place in Omantel as well.

Competition in prepaid will continue: There appears to be little respite on the competitive front for prepaid segment. Three players are now vying for market share in market that has limited growth prospects. Omantel has lost market share in the last two years and is seeking to recover the same. However, during 2Q23 we have witnessed a lower decline in prepaid by 3.3% compared to earlier quarters. Prepaid ARPU has also held steady thus far during this year. It would be difficult to predict how this will turn out as all three players are taking the competition seriously and implementing different strategies to improve subscriber base.

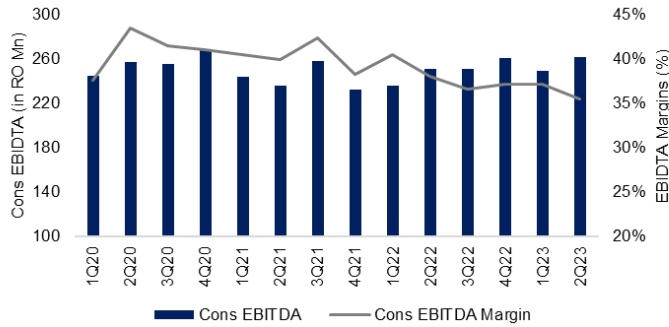
Capex lower, deleveraging during the year: Omantel has been aggressively implementing its 5G network and most of the capex was related to these additions. However, capex has declined during the 1H23 by 23% to RO 32mn compared to the same period last year. The management has guided capex to be in a range of 11-13% of revenue for 2023. As overall debt reduced from RO 605mn to RO 535mn, finance costs declined from RO 25.2mn in 1H22 to RO 20.7mn in 1H23. Management indicated the bonds maturing in 2023 will be refinanced with a similar instrument. We expect overall debt levels to gradually reduce and borrowing costs to decline over the next couple of years. The company received a rating upgrade from Moodys from Ba2 stable to Ba2 positive.

We are optimistic on the company based on the trend in creating an asset light business and deleveraging story. We also expect the dividend income from Zain to continue at the same level going forward with risks more towards the upside. However, the consistent reduction in margins, market share erosion and higher contribution from low margin businesses on the domestic front are a concern. We maintain our earlier BUY rating on the stock with price target of RO 1.177. At the current price of RO 1.015 the stock trades at 8.8x 2023e PE and 1.1x PBV with a dividend yield of 6%. We find the current valuations attractive and expect an upside potential of 15.9% from current levels.

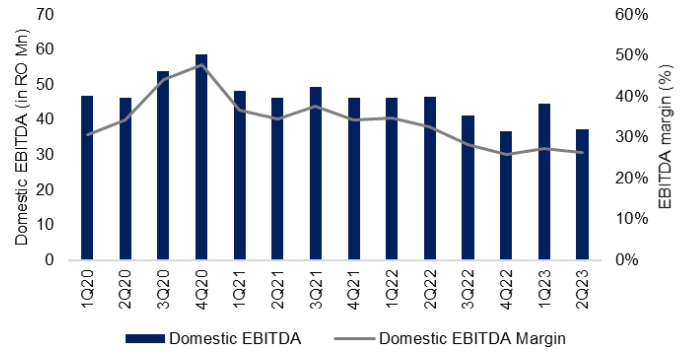




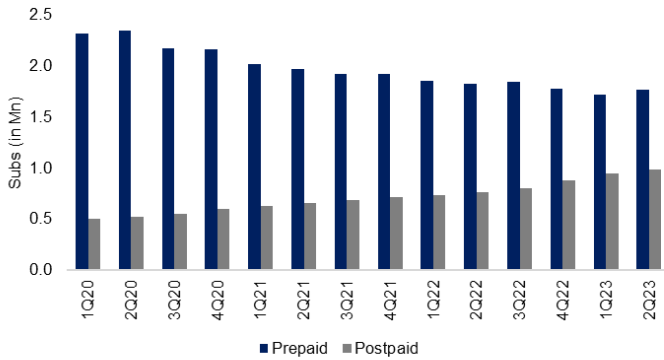
Cons EBITDA increases by 4.9% YoY, while margins lower at 35.5%



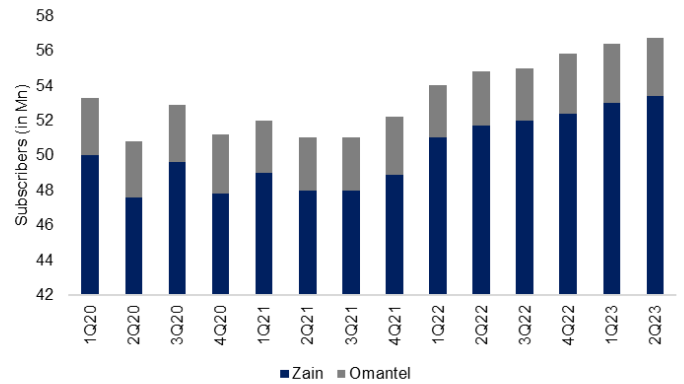
Domestic EBITDA margin persistently lower



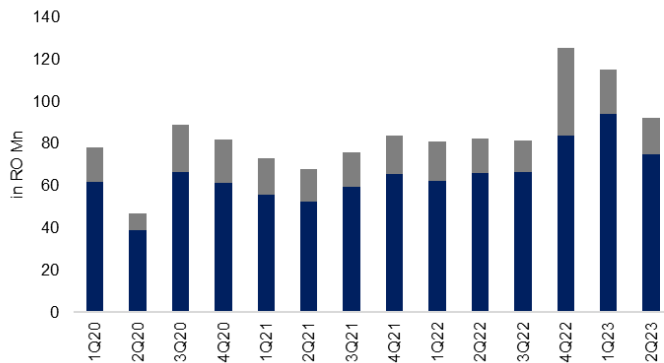
Decline in Prepaid softens, while postpaid continues the uptrend



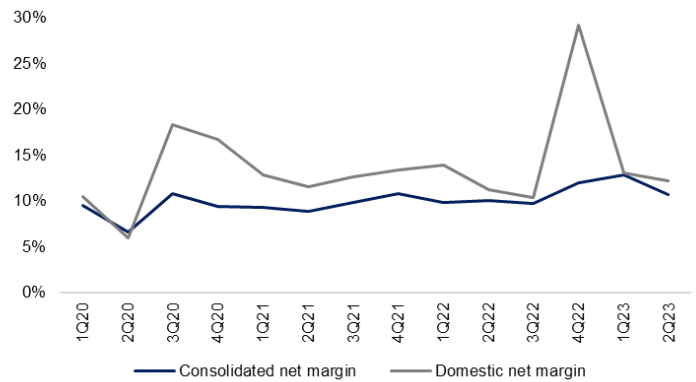
Zain subs increase by 3.3%, while Omantel grows 6.5% YoY



Lower finance costs and tax expense keeps consolidated net profit higher 13.5% YoY in 2Q23



Net margin trends relatively more stable



Income Statement (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	2,592	2,511	2,408	2,683	2,802	2,908	3,020	3,139	3,267
Operating expenses	1,432	1,424	1,432	1,638	1,828	1,922	2,038	2,172	2,260
EBIDTA	1,161	1,087	976	1,045	974	986	981	967	1,006
Depreciation	617	612	593	552	545	534	529	520	532
Operating profit	544	476	384	494	429	452	453	447	474
Finance costs	192	161	139	157	144	125	105	85	65
Other income/(expense)	15	48	-6	65	-10	-11	-14	-18	-18
Profit before tax	337	267	251	272	294	338	362	380	426
Tax	37	38	34	21	44	51	54	57	64
Net income	300	229	234	279	250	287	308	323	362

Profit attributable to:

Shareholders	78	67	67	91	82	94	101	106	118
Non controlling interest	222	162	167	188	168	193	207	217	244
Net Profit	300	229	234	279	250	287	308	323	362

Balance Sheet (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Inventories	70	68	80	70	101	106	113	122	127
Trade receivables	824	839	972	1,122	1,177	1,454	1,661	1,883	1,633
Cash and cash equivalents	471	583	390	451	446	466	425	392	370
Others	139	115	166	484	210	210	210	210	210
Total current Assets	1,503	1,605	1,608	2,127	1,933	2,236	2,409	2,608	2,340
Property and equipment	2,055	2,137	1,983	1,762	1,587	1,437	1,312	1,212	1,112
Right-of-use assets	245	229	226	207	287	369	434	484	523
Licences	-	-	2,391	2,351	2,218	2,102	1,984	1,864	1,743
Other intangible assets	3,568	3,506	1,060	1,039	1,039	1,039	1,039	1,039	1,039
Other non-current assets	263	260	300	351	322	322	322	322	322
Total non current Assets	6,131	6,131	5,959	5,709	5,452	5,268	5,090	4,920	4,738
Total Assets	7,634	7,736	7,567	7,835	7,385	7,504	7,499	7,528	7,078
Payables and accruals	1,322	1,391	1,354	1,466	1,211	1,061	1,019	1,028	1,070
Current borrowings	229	295	580	548	448	398	348	298	248
Lease liabilities	58	50	46	33	86	111	130	145	157
Other liabilities	240	193	188	271	240	256	270	283	298
Total Current Liabilities	1,849	1,929	2,168	2,318	1,984	1,825	1,767	1,754	1,772
Non-Current borrowings	2,352	2,035	1,823	1,740	1,240	1,040	840	640	440
Lease liabilities	616	194	202	211	301	388	455	508	549
Other non-current liabilities	195	682	607	680	687	691	696	703	706
Total Non-current Liabilities	3,163	2,911	2,632	2,631	2,229	2,119	1,992	1,851	1,695
Equity	565	576	579	635	695	780	819	859	791
Non-controlling interests	2,057	2,320	2,188	2,252	2,477	2,780	2,921	3,064	2,820
Total Equity	2,622	2,896	2,767	2,887	3,172	3,560	3,740	3,924	3,610
Total Equity and Liabilities	7,634	7,736	7,567	7,835	7,385	7,504	7,499	7,528	7,078

Cash flow (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	986	926	712	762	597	515	685	705	287
Investing cash flow	-559	-472	-477	-259	-245	-250	-250	-250	-250
Financing cash flow	-496	-354	-345	-451	-806	-507	-547	-566	-576
Change in cash	-33	98	-193	61	-6	20	-41	-33	-22
Beginning cash	503	485	583	390	451	446	466	425	392
Ending cash	471	583	390	451	446	466	425	392	370

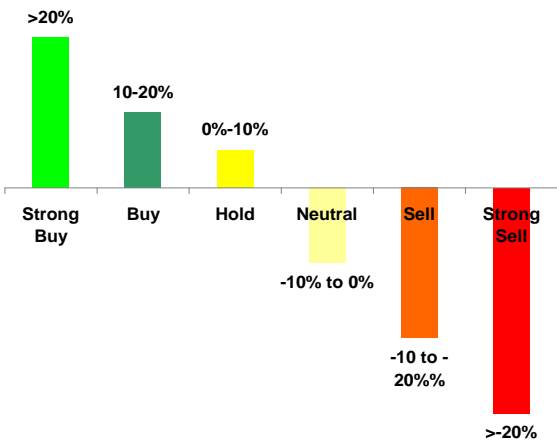
Key Ratios	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (RO)	0.104	0.089	0.089	0.122	0.109	0.125	0.134	0.141	0.158
BVPS (RO)	0.753	0.768	0.772	0.847	0.926	1.039	1.092	1.146	1.054
DPS (RO)	0.055	0.055	0.055	0.060	0.071	0.081	0.087	0.091	0.103
FCF per share (RO)	0.570	0.604	0.313	0.670	0.470	0.353	0.580	0.606	0.049
Valuation									
Market cap (RO Mn)	451	537	561	825	825	825	825	825	825
EV (RO Mn)	3,236	2,528	2,822	2,905	2,454	2,295	2,173	2,024	1,849
EBIDTA (RO Mn)	1,161	1,087	976	1,045	974	986	981	967	1,006
P/E (x)	5.8	8.0	8.4	9.0	10.1	8.8	8.2	7.8	7.0
EV/EBITDA (x)	2.8	2.3	2.9	2.8	2.5	2.3	2.2	2.1	1.8
Price/Book (x)	0.8	0.9	1.0	1.3	1.2	1.1	1.0	1.0	1.0
Dividend Yield (%)	9.2%	7.7%	7.4%	5.5%	6.4%	7.4%	7.9%	8.3%	9.3%
Price to sales (x)	0.17	0.21	0.23	0.31	0.29	0.28	0.27	0.26	0.25
EV to sales (x)	1.25	1.01	1.17	1.08	0.88	0.79	0.72	0.64	0.57
Liquidity									
Cash Ratio (x)	0.25	0.30	0.18	0.19	0.22	0.26	0.24	0.22	0.21
Current Ratio (x)	0.81	0.83	0.74	0.92	0.97	1.22	1.36	1.49	1.32
Quick Ratio (x)	0.19	0.20	0.20	0.26	0.25	0.28	0.31	0.33	0.31
Returns Ratio									
ROA (%)	3.9%	3.0%	3.1%	3.6%	3.4%	3.8%	4.1%	4.3%	5.1%
ROE (%)	11.4%	7.9%	8.4%	9.7%	7.9%	8.1%	8.2%	8.2%	10.0%
ROCE (%)	5.2%	3.9%	4.3%	5.1%	4.6%	5.1%	5.4%	5.6%	6.8%
Cash Cycle									
Inventory turnover (x)	10.7	10.5	9.6	13.4	10.0	10.0	10.0	10.0	10.0
Accounts Payable turnover (x)	0.6	0.5	0.6	0.6	0.8	1.0	1.1	1.2	1.2
Receivables turnover (x)	3.1	3.0	2.5	2.4	2.4	2.0	1.8	1.7	2.0
Inventory days	34	35	38	27	37	37	37	37	37
Payable Days	648	708	648	575	438	365	329	307	307
Receivables days	116	122	147	153	153	183	201	219	183
Cash Cycle	-498	-552	-462	-395	-248	-146	-91	-51	-88
Profitability Ratio									
Net Margins (%)	11.6%	9.1%	9.7%	10.4%	8.9%	9.9%	10.2%	10.3%	11.1%
EBITDA Margins (%)	44.8%	43.3%	40.5%	39.0%	34.8%	33.9%	32.5%	30.8%	30.8%
PBT Margins (%)	13.0%	10.6%	10.4%	10.1%	10.5%	11.6%	12.0%	12.1%	13.0%
EBIT Margins (%)	21.0%	18.9%	15.9%	18.4%	15.3%	15.5%	15.0%	14.2%	14.5%
Effective Tax Rate (%)	11.0%	14.3%	13.6%	7.6%	15.0%	15.0%	15.0%	15.0%	15.0%
Leverage									
Total Debt (RO Mn)	3,256	2,574	2,652	2,532	2,075	1,936	1,773	1,591	1,393
Net Debt (RO Mn)	2,785	1,991	2,261	2,080	1,629	1,470	1,348	1,199	1,024
Debt/Capital (x)	5.8	4.5	4.6	4.0	3.0	2.5	2.2	1.9	1.8
Debt/Total Assets (x)	0.4	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Debt/Equity (x)	1.2	0.9	1.0	0.9	0.7	0.5	0.5	0.4	0.4

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Rating Criteria and Definitions

Rating	Rating Definitions
	
Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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